

ECONOMY / SPRING 2010

Ka-ching!

A Pennsylvania city finds out what happens when a casino moves into the neighborhood

ALISON LOBRON April 13, 2010

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UPDATE: On April 7, after two months of deliberation, Pennsylvania's gaming control board renewed the Sands' operating license and approved the casino's application to introduce table games in Bethlehem. At the same hearing, the Sands announced that the community would not have to wait much longer for the long-stalled hotel; construction will resume in May. "The mayor and I are pretty happy with the news," says Tony Hanna, Bethlehem's economic development director.

Also: CW reporter Alison Lobron appeared on WGBH-FM's *Emily Rooney Show* to talk about the effects of a casino on the surrounding community. Listen to the April 12 program on the [WGBH website](#).

Michael DiLorenzo laughs when he remembers all the talk about hookers. "People said that if a casino came to town, they would be hanging out everywhere," he recalls. A slight, dark-eyed man with a quick smile, DiLorenzo is sitting behind the cash register at Franklin Hill Vineyards in Bethlehem, Pennsylvania, on a quiet Wednesday evening. He gestures out the liquor store's front window at Bethlehem's Main Street, a lantern-lit stretch of cafés, gift shops, and Colonial Era homes. "The hookers are not here," he says.

A year after the Las Vegas Sands Corp. opened its first Northeastern casino, a mile from Bethlehem's Main Street, DiLorenzo says he is barely aware the place exists. As he sees it, the casino, which opened in April 2009, hasn't changed the historic character of the city, turned Main Street into the Las Vegas Strip, or wreaked any of the havoc he recalls local opponents predicting. "It's definitely not the downfall of our community," says DiLorenzo.

But, he adds, the Sands Casino hasn't brought the windfall that local backers started promising as soon as Pennsylvania legalized slot machines in 2004. Despite talk of a tourism boom and a revenue boost for businesses in the city center, the Sands hasn't finished building its long-awaited hotel, and DiLorenzo says he's had exactly one customer come into his shop who was in town because of the casino. "I don't think anything's come of it," DiLorenzo says. "But it's still a very new thing."

As Beacon Hill grapples again with introducing casinos in Massachusetts — this time with the House speaker, the Senate president, and governor all on board, to varying degrees — the experience of this Pennsylvania city of 75,000 is instructive. Like many areas of the Bay State, Bethlehem has struggled to replace lost manufacturing jobs, in particular those that vanished after the 1995 closure of the once-mighty

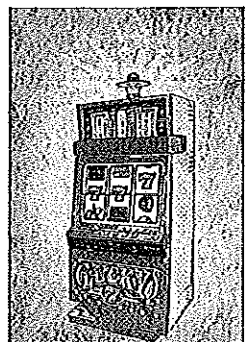
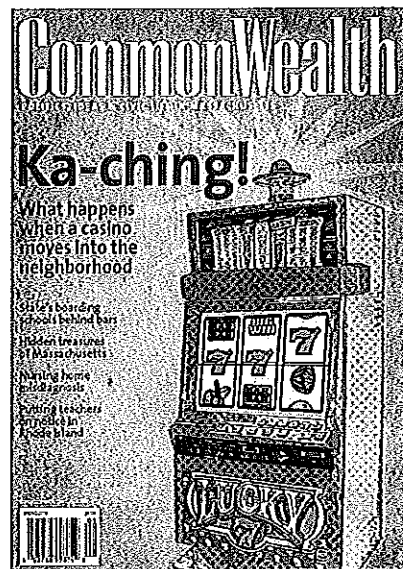


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replace lost manufacturing jobs, in particular those that vanished after the 1999 closure of the once mighty Bethlehem Steel plant. The city's tourism industry has many of the same strengths and weaknesses as communities outside Boston: historic sites and beautiful countryside coupled with lousy weather and casino competition just across the state border.

Soon after slot machines became legal in Pennsylvania, gaming proponents in Bethlehem offered many of the same arguments heard in the halls of the Massachusetts State House early this year. Gambling, they said, would spur economic development, create jobs, and prevent money from being sucked into casinos across the state border. Opponents, meanwhile, predicted that gambling would harm the fabric of communities, create social problems, and sap money away from local businesses and the state lottery.

On the whole, Bethlehem's experience has been more positive than negative. The city has new jobs, and even the casino's opponents acknowledge the community's character feels unchanged. The state lottery's sales have gone up, not down. At the same time, even the big supporters of Bethlehem Sands say that Massachusetts communities should beware of casinos that flash dollar signs before their eyes and should not rely on promised benefits. The jackpot, they say, may not be as big as predicted — and the most severe of human consequences may not appear for some time.

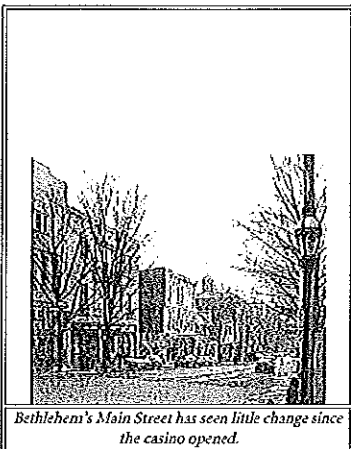
Serious money yet to arrive

As soon as Pennsylvania legalized casinos, Bethlehem's mayor, John Callahan, knew he wanted one. Callahan, whom the local newspaper calls "the Sands' head cheerleader," has the boyish good looks of a homecoming king. He is now running for Congress, and when I meet him in his City Hall office, he's quick to highlight what he sees as the Sands' positive contributions to Bethlehem. First, he cites jobs: This casino of 5,000 slots has brought approximately 750 or 800 new full-time positions with benefits.

The Sands is a medium-sized casino, the fifth largest employer among the state's nine gaming facilities. At the end of 2009, no casino in Pennsylvania directly employed more than 1,200 people — a number that could be a boon to the home communities, perhaps, but a far cry from the 20,000 permanent jobs that Gov. Deval Patrick predicted three resort casinos would bring to Massachusetts. In 2008, four years after legalization, Pennsylvania's gaming industry employed fewer than 6,000 people.

Still, Callahan says that, when temporary construction jobs are counted, the economic benefits have been strong. "We grew 2,000 jobs in 2009," he says. "Everywhere else you had lines at unemployment offices. Here, we were opening employment offices."

He's also pleased the city has avoided some of the anticipated drawbacks to a casino: Crime hasn't gone up, traffic hasn't gotten worse, and the city doesn't look cosmetically different. Overall, crime in Bethlehem fell 9 percent the year the casino opened — perhaps because of the stepped-up police force, but more likely, the mayor thinks, because more people had jobs.



Bethlehem's Main Street has seen little change since the casino opened.

"I want to be the place where people say, 'They did casinos right,'" Callahan says. Holding up one hand, he ticks off a list for avoiding pitfalls that sounds something like this: Find the right site. Find the right operator. Get the zoning right. Work with your neighbors. Figure out infrastructure needs in advance.

Still, while the city is more than breaking even, it isn't making serious money. Pennsylvania's enabling legislation requires casinos to pay a 55 percent tax rate to the state on revenues, with 4 percent of the total going to the host communities. The casino's gross terminal revenues — revenues after gambling winners are paid — totaled \$153 million through the first eight months of the fiscal year ending July 2010. Among the nine casinos in Pennsylvania, the Sands accounts for just over 10 percent of the

state's total gambling revenues.

For Bethlehem, host fees came to \$1.6 million in 2009, or \$300,000 over what the mayor's office had

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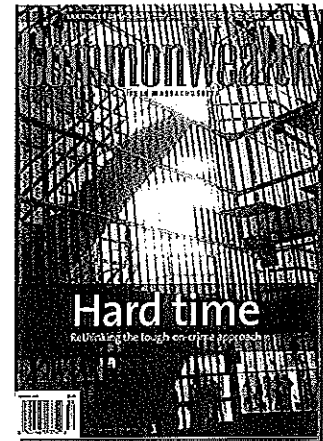
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anticipated for this first partial year. In 2010, the first full year of operation — and a year in which the casino plans to add newly legalized table games to its current slot machines — the city projects \$7.5 million in host fees. The mayor's office says the financial benefits, which also include retail and land taxes, so far have outweighed the need for additional municipal expenses like an expansion of the city's police force, from 144 to 161.

But Callahan is under pressure. The casino is the biggest thing to happen to Bethlehem during his tenure as mayor, but after five years of supporting the Sands, he's frustrated that the "Casino Resort" is not yet a resort. The dream of a tourist destination, where people would stay, play, and spend, has yet to materialize.

In 2008, citing the economy, the Sands stopped construction on a 300-room hotel that was supposed to make Bethlehem a tourist destination. The hotel's metal skeleton, cloaked in plastic wrap, is a blight on the Sands site akin to the empty foundation of Filene's Basement in Boston's Downtown Crossing.

"I want to see them finish it," says Callahan.

Without a hotel, visitors to the Sands are now locals and day-trippers, meaning that Bethlehem doesn't have new hotel jobs and isn't collecting hotel taxes or meal taxes from overnight guests. Based on the impressions of local business owners, Sands visitors gamble, eat at on-site restaurants, shop at on-site retail, and then leave. They do not, at least according to anecdotal reports, cross the river and spend time in the historic city center, despite a city-run shuttle bus designed for that purpose. As the Sands approaches its first anniversary, Callahan and others are grateful for some of the benefits — and impatient for more of what they were promised.

From steel plant to slots

From the main road, the Bethlehem Sands looks nothing like a leisure destination of any kind, much less one with roots in Vegas. The casino itself, a nondescript structure of concrete and glass, was built to look old, says Bethlehem Sands president Robert DeSalvio. More specifically, it was built to look like what the site used to be: the Bethlehem Steel plant.

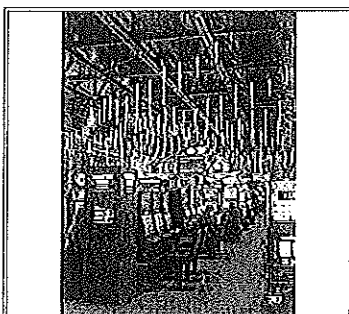
The casino itself rests on top of what was once the ore pit. The Sands painted one of the plant's giant cranes black, hung their red logo on it, and then built the casino in the style of the plant's other buildings, some of which are being refurbished into art spaces and an industrial museum.

For some in the city, the Sands not only respected the character of the original site, it provided a service the city couldn't perform for over a decade: rebuilding a massive, historical brownfields site that contains the memories of generations.

"We were working on that site for 10 years and nothing was working," remembers Tony Hanna, Bethlehem's director of community and economic development. He says earlier plans to revitalize the abandoned plant — including one for a Faneuil Hall-style marketplace — lacked the investment to get off the ground. "We needed a powerful economic engine, and there are very few of them out there," he recalls.

"You sort of make a Faustian bargain with gaming," says Hanna. "But the good news is we did it because it was a way to jump-start redevelopment of the Bethlehem Steel site. If we didn't do that, we wouldn't have brought gambling to Bethlehem."

For Bethlehem, bringing a casino to town was inextricably linked to finding a company that would redevelop that particular site. As the mayor remembers it, the site was a hard sell with some of the gaming operators who expressed initial interest in the Lehigh Valley. Most wanted to be on the outskirts of town, just off the interstate highway. "I'd be cannibalizing my own downtown if the investments — the casino and the retail — all went up at the outskirts," says Callahan. "So I had to find an operator who could get excited about [the former plant]. The Sands loved it. They loved the site, loved theming it around the steel industry and



A weekday afternoon inside the casino, whose ceiling was designed to resemble the steel plant that once stood here.

keeping the sense of place." Callahan says the city negotiated with the casino company to determine which buildings would be torn down and which would be refurbished.

Linking the casino's creation to the plant's revitalization proved to be a key selling point for residents, who take pride in the plant that supplied steel to much of New York City's skyline and fueled America's efforts in both world wars. Tony Hanna says that soon after the state legislature approved slot machines in 2005, public opinion in Bethlehem was evenly divided on bringing a casino into town. "But it went to 60/40" — in favor of gaming — "when you asked people whether they approved of a casino if it would mean saving the Bethlehem Steel site," Hanna recalls.

Most of the thematic links are structural: the massive black crane, the gray-and-glass exterior that blends into the rest of the plant, the ceiling arches that echo those of original Bethlehem Steel buildings. "We get older steelworkers who come in and are reduced to tears by the appearance," says DeSalvio, the Sands president.

Working with neighbors

The casino sits near the border between the historic downtown and the grittier neighborhood of South Bethlehem, whose close-together cottages once housed generations of steelworkers, many of them immigrants. Today, Head Start buses roll through the area, and retail signs are a blend of English and Spanish. DeSalvio says the casino made a concerted effort to create an employee roster that reflected the significant Latino population of South Bethlehem.

Mayor Callahan says working with neighbors, assessing infrastructure needs, and re-thinking zoning were critical in ensuring the smoothness of the integration. The first meant agreeing with two neighboring communities, whose local governments also wanted a casino, that whoever did not get the facility would still collect a portion of the host fee. (The thinking behind shared host fees is that any negative effects — an increase in problem gambling, for example — would not stop at city lines.)

Assessing infrastructure meant gradually ramping up Bethlehem's police force, adding four or five new officers each year — and building in an area that could withstand the road and parking needs of a casino.

According to Hanna, the economic director, the Bethlehem Steel plant absorbed 30,000 workers every day at its peak, so the site was accustomed to heavy volume.

The city also put new zoning regulations in place, designed to ensure that the community's fears — prostitutes, drugs, robbery, general sleaziness — don't overwhelm South Bethlehem. The city council explicitly barred pawn shops, cash-checking establishments, and "adult entertainment" stores from locating within 5,000 feet of the casino. "I didn't want a strip of pawn shops," says the mayor. "You can't prohibit them because they're legal businesses, but if you don't allow them to set up shop close to the casino, then they won't come."

Indeed, for those who dislike casinos on aesthetic grounds, there's little about the Sands to cause offense. All hints of Vegas are confined behind windowless walls. The interior, to be sure, contains all the standard casino elements: flashing lights, massive neon dollar signs, and a swirl of cigarette smoke so thick the brand-new building already smells stale. But it's easy to avoid this atmosphere. The only locals who have to confront the blinding lights and stale smoke are the ones who choose to go inside.

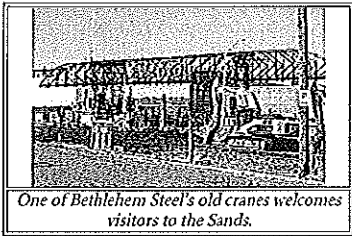
David Wickmann is president of the Northern Province of the Moravian Church, the Protestant denomination that founded Bethlehem several centuries ago. He was part of a vocal opposition to the Sands' arrival because, as he puts it, "we felt that the presence of a casino would alter the character and fabric of a community in ways that would be detrimental to its future."

He acknowledges that his fears have not come to pass. "The casino occupies a relatively small space within our community in terms of footprint. It has not had a positive or a negative effect on the fabric of the community," he says.

Like their counterparts in Massachusetts, casino opponents in Pennsylvania argued that casino revenues

wouldn't really be new revenues. In other words, there's only so much that a state's residents will spend to gamble, and whatever is gained in casino taxes will likely be lost in state lottery revenues. That hasn't happened so far in Pennsylvania. A Pennsylvania legislative committee last year studied the effect of casinos on the state's lottery and found that, overall, average monthly lottery sales not only didn't fall, they rose — from \$247 million to \$257 million between 2005 and 2009, a period in which Pennsylvania was steadily adding casinos. But while the statewide average was up, sales did fall by 1.7 percent in communities hosting casinos. "Competition from slots gaming cannot be discounted as a factor affecting Lottery sales," the committee concluded.

While Bethlehem's response to its casino seems to vacillate between neutral and positive, relations between city government and the casino have lately become tense over the lack of the promised hotel.



One of Bethlehem Steel's old cranes welcomes visitors to the Sands.

Angered by reports that the Sands Corp. is considering a new casino development in Florida before it fulfills its commitment to Bethlehem, Callahan went before the Pennsylvania Gaming Control Board in February and asked them to tie renewal of the Sands gaming license to completion of the hotel. The license is up for renewal this year, and, as of this writing, the board was still considering the mayor's request.

Speaking for the Sands, DeSalvio says reports that the casino is building elsewhere are overblown. "We are always on the lookout for new possibilities, yes, but we have not announced a casino in Florida," he says.

And he says the casino hasn't committed to a restart date because they don't know when new capital will be available. "We can't do it out of internal cash flow, and the banks haven't been willing to lend in order for us to restart building," he says. The company has spent \$743 million on Bethlehem so far and needs another \$100 million to finish the hotel. It reported an operating loss of \$1.16 million during the last six months of 2009.

In early March, Las Vegas Sands Chairman and CEO Sheldon Adelson, a Massachusetts native who has been rumored to be interested in building a Bay State casino, issued a press release declaring that the company was "mobilizing" to resume construction. The release was carefully worded and made no specific promises, stating only that the company "could restart construction on the 300-room hotel tower within the next several weeks, or as soon as subcontractors are lined up and activated."

Addictive behavior

While the mayor simmers over the absence of promised tourism revenues, other problems may be simmering in the city, just as opponents predicted they would. Compulsive or problem gambling — a kind of addiction that can lead to bankruptcy and foreclosures — appears to be on the rise in Pennsylvania. Jim Pappas, executive director of the Council on Compulsive Gambling of Pennsylvania, says calls to his statewide hotline have nearly doubled since Pennsylvania's first casinos opened in 2006. During the years when residents had to go to New Jersey to gamble, he'd get 600 or 700 calls a month. Now, he says he's getting 1,300. (Like its Massachusetts counterpart, Pappas's organization is neutral on legalized casinos; it exists only to help problem gamblers.)

Despite the argument advanced by casino proponents in Massachusetts — namely, that people will gamble anyway and why let the dollars go to Connecticut — Pennsylvania's experience suggests that proximity counts: If the casino is just a mile away, residents with addictive tendencies will go more often, and lose more of their families' rent and grocery accounts, than if they had to travel 100 miles. National studies have indicated that the "proximity effect" is not unique to Pennsylvania; a 1999 study found the rate of problem gambling to be twice as high within a casino's 50-mile radius than outside that area. (See "Hitting the Jackpot," *CW*, Spring 2005.)

Mayor Callahan says he's not aware of additional gambling problems in Bethlehem, but acknowledges, "It's early. People will say that compulsive gambling and other social consequences take some time to be seen."

Still, the big sticking point in Bethlehem remains the

Meet the Author

hotel. And it's a sticking point worth noting for all in Massachusetts who see "resort casinos" as the solution to economic woes: they may bring some revenues and they should, at the very least, not be costing more in municipal services than they provide in revenues. But just as the negative effects, like problem gambling, may take a long time to show themselves, sustainable profits — and jobs — may also be slower to arrive than expected.


As Tony Hanna, Bethlehem's economic director puts it, "The Sands will be a billion-dollar project someday. We'd just hoped it would be a billion-dollar project now."

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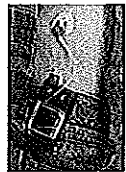
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